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The Impacts of Commercialization on Depth, Breadth, Scope, and Quality of Outreach in Mozambique: A Case-Study

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ABSTRACT: *In today's microfinance, scholars and policy-makers across the world have emphasized the importance of financial sustainability, or the ability of a microfinance institution (MFI) to finance its operations. In order to reach financial sustainability, MFIs embrace commercialization, a process where an MFI undergoes restructuring in order to open up avenues to capital. Yet, scholars are concerned that this emphasizes on financial sustainability will cause the social good objective to suffer, a phenomenon known as "trade-off." Indeed, studies have found that commercialization impacts MFI outreach in various ways. To my knowledge, no research has attempted to understand the impacts of commercialization on microfinance outreach in Mozambique. Therefore, interviews of 24 experts in the microfinance field in Mozambique were conducted and a survey was used to gather quantitative data. A descriptive analysis and cross-tabulation analysis were used to examine the survey data. The research supports previous findings that when an MFI undergoes commercialization it moves up-market loaning to less poor clients indicated by an increase in minimum capital requirements. This demonstrates that commercialization has a negative impact on depth of outreach. This study also supports the claims that commercialization increases the number of clients reached by MFIs, increases the diversity of products available to MFI clients, and decreases the cost to clients demonstrating that commercialization has a positive impact on breadth, scope, and quality of outreach respectively. This study suggests that the trade-off phenomenon takes place when social good is measured as depth of outreach. However, when social good considers all dimensions of outreach, a negative trade-off is not significant. For future research, this suggests that to understand the impact of commercialization, financial sustainability should be balanced against all dimensions of outreach. For policy-makers and MFIs in Mozambique, these findings suggest that commercialization can be used as a tool to increase breadth, scope, and quality of outreach but cautions against commercialization if the social mission of the MFI is predominately depth of outreach.*

Introduction

Like Libra balances the scale of night and day, MFI's must balance the weight of financial sustainability and the weight of realizing social good. It has been argued that when MFIs weigh heavily on social good, financial sustainability suffers. On the other side of the scale, when MFIs weigh heavily on financial sustainability, social good suffers, a phenomena known as "trade-off" (Hermes et al., 2011). Since the beginning, MFIs have had to balance the objectives of outreach and financial sustainability. Sometimes called attempting to meet the "double-bottom line," microfinance strives to not only do-good but to pay for itself. MFIs must carefully balance both objectives of financial sustainability and social good or one of the two objectives will be compromised.

In microfinance, social good is defined by the ability to reach clients, a concept known as outreach. In other words, the objective of microfinance is to include previously excluded clients into formal financial systems that will give them tools to help them overcome poverty. Citing Schreiner (2002) and Copestake (2007) client outreach can be further broken down into dimensions including depth, breadth, scope, and quality. To briefly explain each dimension: Depth of outreach speaks to the ability of the MFI to reach poor clients, breadth of outreach is the ability to increase the number of clients, scope of outreach speaks to the diversity of products available to the clients, and quality of outreach is the extent of customer satisfaction related to the cost to the client. These four dimensions of client outreach speak to the ability of the MFI to reach clients providing valuable financial services that increase income-generation activities.

In recent years there has been a push in the microfinance community to prioritize financial goals. While acknowledging that donations have been important in supporting MFIs, scholars have suggested that times are changing for the microfinance industry worldwide including Mozambique. The idea to "eradicate poverty through profits" has become quite popular and has resulted in a shift towards MFIs running as banks (Prahalad 2006,1; Roy 2010, 29). In 2006, Prahalad published *The Fortune at the Bottom of the Pyramid* advocating for commercialization. The future of microfinance as a commercial industry has become the dominant strand of thought behind several international development organizations (Roy 2010). In 2004 CGAP published "They Key Principles of Microfinance," an article that upholds the importance financial objectives.[1] The article discourages subsidies and donations and calls for a lassie-faire approach to government intervention (CGAP

[1] The Consultative Group to Assist the Poor (CGAP) is a powerful global partnership that is, essentially, a branch of the World Bank

2004). Serving as a means to an end, commercialization is the process of restructuring a MFI so that it can attract investment and increase access to capital.

Studies have attempted to understand the impact of emphasizing financial sustainability on outreach without clearly defining outreach. Critics and supporters alike have blurred the definition of outreach. Critics of commercialization assert that the pressure to meet financial goals often results in “mission drift,” or the MFI abandoning its social mission (Sinclair 2012, 81). Critics often cite studies that measure outreach by depth resulting in the demonstration that commercialization has a negative impact on outreach. On the other hand, advocates of commercialization assert that commercialization increases financial inclusion and financial sustainability. Advocates often cite studies that measure outreach by breath resulting in the demonstration that commercialization has a positive impact on outreach. Previous research on trade-off has often neglected to study all the dimensions of outreach. In order to clarify this confusion, this study explores balancing financial sustainability against the depth, breadth, scope, and quality of outreach in the microfinance industry of Mozambique.

What’s the Big Deal about Microfinance?

Poverty can be understood as a trap, one that brings persistent obstacles causing further economic degradation (Azariadis and Stachurski, 2005). In “The End of Poverty,” Sachs (2006) argues that access to capital is a way to help poor people reach the first rung of the economic ladder to climb out of the poverty trap. Indeed, studies show that microfinance has a positive impact on household income (CGAP 2002). Hossain (1988) found that income of Grameen Bank borrowers increased by 43% compared to the target group that did not have microcredit programs in their area. Similarity, Khandker and Pitt (1996) found that household income increased 29% in program villages versus non-program villages. Microfinance has been widely celebrated for its ability to aid people in their escape from the poverty trap.

Endorsing this idea, governments and non-governmental actors across the world have supported microfinance initiatives. The United Nations declared 2005 "the year of microfinance" and the brain behind the microfinance movement, Muhamad Yunus, won the Nobel Peace Prize in 2006 (Roy 2010). From implementing programs to creating entire agencies dedicated to the task, international actors have used microfinance as a tool in the mission to eradicate poverty and to accomplish development goals.

The Republic of Mozambique

The Republic of Mozambique is no exception to this enthusiasm and has recognized microfinance as a tool for economic growth. As one of the poorest countries in the world with a low access to banking services, the country could stand to benefit from the promises of microfinance. In 1997, the Government of Mozambique announced an objective to expand microfinance services to reach 100,000 clients by 2005. This ambitious goal called for increasing the existing outreach by almost five times. In 2007, the Bancarização da Economia strategy encouraged banks to construct branches in rural areas. The National Microfinance Policy and Strategy to the Rural Finance Strategy provides avenues for institutions to incentivize rural finance through credit lines, grants, and subsidized loans. Recently, the Mozambique Financial Sector Development Strategy (MFSDS) and the Financial Inclusion National Strategy (FINS) have supported financial inclusion emphasizing education and agriculture loans. Expressed in a survey carried out by Austral Cowi in partnership with the Ministry of Finance, the government of Mozambique has considered the expansion of the microfinance services a "priority objective" in the quest to increase national economic development especially emphasizing rural development

(Finscope, 2009). By passing initiatives that incentivize financial inclusion and lowering boundaries of entry, the Government of Mozambique has created an "enabling environment" for MFI growth (CGAP and FSDMoc, 2017).

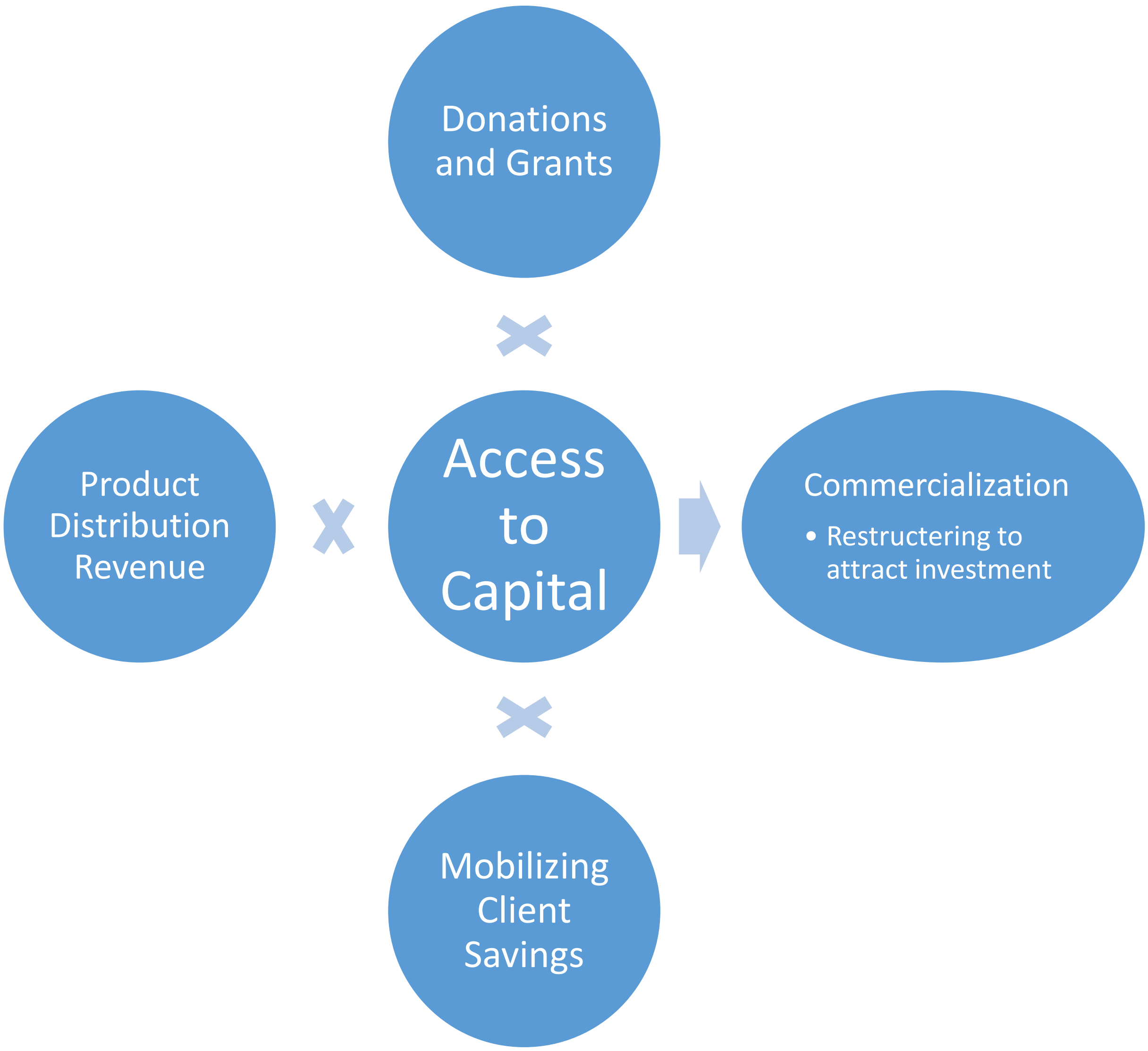
Partly due to this support, the microfinance industry in Mozambique has experienced growth. According to data reported by the Bank of Mozambique (BoM), MFI clients have increased by 250% from 2012 to 2016. Additionally, loan portfolio rates have grown significantly with an increase of 339% (CGAP and FSDMoc, 2017). Furthermore, there has been an increase in the number of institutions that provide microfinance services. The Government of Mozambique has categorized MFIs into different groups depending on the types of services provided and regulations followed. When counting microbanks, credit cooperatives, and microcredit operatives, and commercial banks that provide microfinance loans together, the BoM reports 449 MFIs, an increase from 174 in 2012. This data reflects a microfinance market that has been growing rapidly.

Despite the statistics that demonstrate rapid growth in MFI in Mozambique, a closer look creates reason for concern. All Mozambican MFIs register with the Bank of Mozambique (BoM). According to their records, they report 449 organizations that offer microfinance services in Mozambique. However, the Associação Mocambicana de Operadores de Microfinanças (AMOMIF), an umbrella organization created by the BoM that assists MFIs in Mozambique, only has record of 188 MFIs. Although it is not a requirement to register with AMOMIF, there are benefits that AMOMIF can provide to an active MFI. There is further data that calls into question whether or not all registered MFIs are active. In a study by Cumbi (2011), they found that out of the 145 registered MFIs only 42 were functioning. Furthermore, records show a spike in registered MFIs after the release of funds through the Rural Finance Support Program in 2005. However, when funds were exhausted many of these MFIs ceased operations. Conflicting statistics, outdated websites, empty office buildings, and disconnected phone numbers of registered MFIs call into question the legitimacy of many of these MFIs. After speaking to experts in the microfinance field, the number of MFIs actively providing microfinance loans is merely a fraction of the number of registered MFIs.

Adding to concern is that Mozambique has lost three of its most influential microfinance service providers in the past 4 years. In 2014, Banco Procredit became a subsidiary of Ecobank discontinuing its microfinance products. The same year, Banco Tchuma was sold to Geocapital and renamed Banco Mais abandoning the poverty mission in favor of serving the corporate sector (CGAP and FSDMoc 2017). Finally, in November of 2016, O Nosso Banco was forced to close when the BoM revoked their license finding that they were in violation of liquidity laws. As MFIs close, doors to access microfinance also close.

Despite growth in recent years, access to microfinance, and financial services remains very low. In a stratified two-stage survey of 5,028 households over 488 districts in the country, it was found that 60% of the sample population was excluded from the financial market indicating that they did not use any financial services neither formal nor informal. In the same survey it was found that only 4% of the sample population was using finance services provided by a non-bank or a microcredit provider. Furthermore, access to credit in the rural areas is nearly half of that. The access to financial services decreases drastically when one moves from urban communities to rural communities and as one moves away from the capital city, Maputo (CGAP and FSDMoc 2017).

In explaining this low rate of market penetration, experts agree that the growth of the microfinance industry is limited by access to capital. Basu et al. (2004) asserts that increasing integration between banking and microfinance industries in Africa would provide greater liquidity to MFIs and expand the growth of microfinance services. Saeed (2014) asserts that factors such as lack of transparency deters investors and limits the growth of the microfinance industry. In a survey completed by microbanks, they report that one of the main constraints they face is "limited funds to concede credit" (CGAP and FSDMoc 2017, 56). Or in other words, MFIs do not have sufficient funds to expand, or even sustain, operations (CGAP 2004; Prahalad 2006).



Graph 1: Limitations to Access Capital for MFIs in Mozambique

Access to Capital in Mozambique

There are four avenues that MFIs use to access capital. They are product distribution revenue, client savings, donations, and commercialization. Referencing Graph 1 where x represents a limitation, the impacts of the first three, product distribution revenue, client savings, and donations are limited by various factors. Due to the social impact goals of MFIs the revenue from product distribution is limited. In order to reach disenfranchised segments of the population, MFI operation costs are high. To cover these high operation costs, most MFI clients pay higher interest rates than clients of commercial banks. Yet, MFI clients are less well-off than the traditional banking client, therefore, most MFIs cap their interest rates in order to protect the client. Nonetheless, exorbitant interest rates have been used in the past to make up for high operation costs. For example, in 2007, Compartamos Banco charged an interest rate of 94% (Cull et al. 2009). These MFIs have been compared to loan sharks and have effectively abandoned the social mission in favor of profit. For genuine MFIs that strive to balance social mission and financial sustainability, significantly increasing cost to the client is not a viable solution.

Client savings is another avenue that MFIs have limited access. By mobilizing client savings, the MFI can invest in new clientele and benefit from budget stability. However, the Bank of Mozambique has restricted the collection of deposits, or savings. In order to protect the client, MFIs that collect savings have high minimum capital requirements. According BoM, only 9 of the existing 449 registered banking institutions are permitted to collect savings. Liquidly laws designed to protect the MFI client end up creating barriers to a MFI's access capital.

While it is true that donations are commonly used to finance microfinance organizations, this strategy is decreasing in popularity. In the earlier years, donations and grants were the most common avenue to finance a MFI. The social impact was considered sufficient payment for the cost. However, policy-makers are moving away from donation-heavy MFI programs as can be noted by literature published by CGAP (2004) and USAID (2012). Many agree that financial sustainability is integral to institutional sustainability (Woller and Brau 2004; Yunus 2007). With the new buzzword being financial inclusion, policy-makers are emphasizing the importance of expanding microfinance services through financially sustainable microfinance.

Although many national and international donors continue to be vital in financially supporting MFIs, many policy makers consider this method to be unsustainable. When donor's pockets run dry, MFIs will not have working capital to be able to expand or even continue providing financial services. When a MFI depends on donors they are vulnerable to the "whims of donors" meaning that MFIs must respond to the demands of the donors regardless of what may be best for the organization. Furthermore, some scholars assert that donor funds "crowd out" market sources that could aid in the growth of MFI industry (Basu et. al 2004, 14). It is argued that donations weaken financial discipline suppressing financial success and economic growth (Robinson 2001; Basu et. al 2004). Due to these factors, donations are not considered a long-term solution to the poverty question.

With the other three avenues exhausted, the remaining method to increase capital for MFIs is through commercialization. This is a process of restructuring a MFI to emphasize financial goals. Restructuring may include changing management structure, adopting measures of transparency, and changing loan policies- all done to increase investment attraction. Charitonenko et al. (2004) explains commercialization as "the expansion of profit-driven microfinance operations" (17). In other words, commercialization is when a MFI incorporates aspects of business theory opening the doors to capital through loans, leverage, equity, selling shares on the stock market, and other investment strategies. It is a means to an end. Or in other words, commercialization is a path to financial sustainability.

Commercialization has already begun in Mozambique. Socremo and Opportunity Bank have abandoned the legal category of microfinance provider in favor of the commercial bank category. Socremo became a commercial bank in 2003 as part of its restructuring mission. In 2016, Opportunity Bank was sold to FinTech and MyBucks and has vamped up its efforts to service salaried employees. This transition to commercial bank may indicate a shift away from microfinance services and toward traditional banking products. Yet, these two banks have pledged to remain a MFI and to this point, they have continued to provide microfinance services.

Commercialization: The Good

Following the Profit Incentive Theory, also called the Agency Theory, when an MFI undertakes commercial funding strategies, the MFI is incentivized to perform efficiently (Bayai 2016; Bogan 2012). By taking on more debt through unsubsidized loans and investments, the MFI is under pressure to perform efficiently, cover operation costs, and to turn a profit. These pressures encourage financial discipline promoting economic growth and institutional sustainability (De Aghion and Morduch 2005; Kar 2011; Basu et.al 2004). Verifying these claims, Kar (2012) found that MFIs that took on debt had higher measures of profit and cost efficiency.

Advocates of commercialization emphasize financial goals because without financial sustainability a MFI cannot operate long-term. In 2007, Michael Chu wrote “Profit and Poverty: Why it Matters” arguing that only financially sustainable MFIs are capable of accomplishing social objectives. If an MFI cannot operate on its own resources, then there is no guarantee that the financial inclusion services will continue. Mukwanason (2016) explains this concept stating, “unless there is a separate, autonomous funding for the social role, a firm’s priority must be its economic role” (9). Especially considering the recent “hidden debt” crisis in Mozambique, a microfinance industry that is dependent solely on donations and grants risks withdrawal of support at any time (Hanlon 2017).

When a MFI embarks on this financial strategy, several commercial financing opportunities become available. MFIs may take on debt in form of loans from national governments, international governments, multilateral associations, private donors, or commercial banks. These loans will increase the capital. Similarly, MFIs can sell part-ownership of their organization by using equity financing. Public and private organizations may invest this way in MFIs. By leveraging assets, MFIs can afford to invest in growth. Finally, MFIs can go public becoming a player in the stock-market allowing them the opportunity to raise more capital. In 2007, Banco Compartamento of Mexico went public tripling its quarter revenue (Cull et al. 2009).

Achieving financial sustainability through commercial capital opportunities allows MFIs to expand client outreach. Chu asserts, “no longer funds-constrained, the number of poor people reached and the volume of capital disbursed has exploded” (1). By capturing economies of scale, MFIs can include new clients in the financial system (Brau and Woller 2004; Charitonenko 2004; Christen 2001). In this sense, commercial MFIs can expand financial services to more people, a measurement known as breath of outreach (Olivares-Polanco 2005).

Commercialization of MFIs also results in benefits to the clients associated with an increase in the diversity of products and services available to the client, or an increase in scope of outreach. Increasing scope of outreach, also called segment diversification, provides a variety of financial products to meet the needs of clients. MFIs are able to provide different financial services that complement one another. In other words, “lending methodologies should be seen as complementary approaches to serving different market segments” (Frankiewitz,130). By expanding the products and services MFIs are able to better serve different areas of the market. For example, a MFI that has been solely offering group solidary loans expands to offer individual loans to clients who have surpassed the limitations of group solitary loans. Other expansions include mobile banking, online banking, micro-insurance, and savings options (Muriuki et. al, 2015). Another way to increase scope has to do with the variations in loan contract. For example, a loan contract that stipulates that a client has 1 month to repay in lump sum is more stringent than a loan contract that states that the client has 6 months to repay in instalments (Schreiner 2002). An increase in scope of outreach corresponds with market expansion increasing the number of clients better served by the MFI.

Previous research suggests that commercialization of the MFI also has a positive impact on quality of outreach. Quality of outreach is defined by the client satisfaction with the performance of MFI in distribution of products and services (Copestake 2007). The ideal measurement for quality of outreach is data collected from consumer report surveys. It has also been measured by the ratio of number of clients to the number of MFI employees (Copestake 2010). However, in absence of this data it is also appropriate to use a measurement called "cost to client" (Schreiner 2002). As interest rates, transportation costs, and fees decrease, customer satisfaction increases. Research on the microfinance market has found that in Mozambique, commercial MFIs have the upper hand in decreasing costs to clients. Due to government initiatives and scope of operations, commercial banks can usually meet the expense of offering affordable products and services. In Mozambique, credit is increasingly available through commercial banks (Finscope 2009). As branches spread, more clients benefit from a decrease in transportation cost. In addition, commercial banks have lower prices on products. Due to economies of scale, commercial banks can provide a diverse range of financial products at cheaper rates. The official commercial bank interest rate set by BoM in 2016 is 23.25% annually where the interest rate for non-commercialized MFIs in Mozambique is between 3-5 percent per month which comes out to 36-60% annually (CGAP and FSDMoc 2017). Even at the low end of the scale, the interest rate of MFIs is higher than the interest rate of commercial banks. Contrary to this argument, it is important to mention that MFIs that have not undergone commercialization may provide more personalized care for their clients resulting in a higher measurement of quality of outreach. However, this data is outside of the scope of this research. By measuring quality of outreach by cost to client, evidence suggests that commercialization has a positive impact on quality of outreach in Mozambique.

The promise of commercialization is that it opens a new world of capital opportunities for MFIs. Once the microfinance industry is no longer constrained by capital, MFIs will expand services and attract clients from across the country bringing Mozambique financial inclusion. However, as financial sustainability is emphasized, microfinance policy-makers and scholars are concerned about depth of outreach.

The Bad: Mission Drift

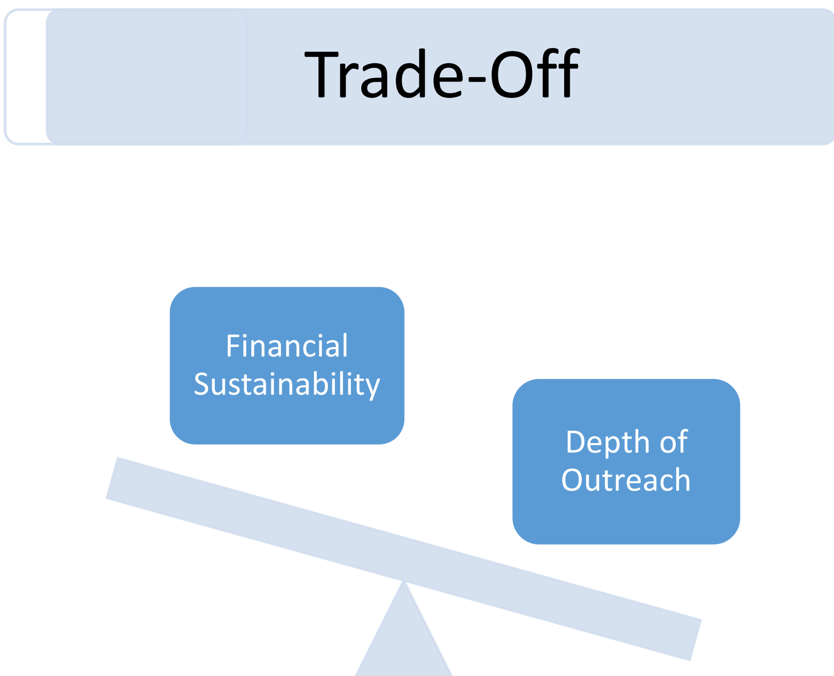
The concern is that commercialization causes mission drift, or the prioritization of financial objectives over outreach objectives (Christen 2001; Zhao et al. n/d; Helms 2006). Microfinance carries the burden of balancing the scale of financial sustainability and outreach. Sinclair explains, "mission drift is the risk of a [MFI] forgetting its own mission and pursuing purely commercial ends to the detriment of the poor" (2012, 81).

Skeptics of commercialization argue that, microfinance programs that are pressured to increase profits have no "good" options. They must increase loan rates, cut program costs, increase boundaries of entry, or participate in capital investment (Hossain 1988; Khandker 1998). Firstly, increasing loan rates above a certain threshold will negatively affect the borrower to the point that they may default (Khandker 1988). Secondly, cutting program costs risks cutting the budget for highly skilled employees, grassroots advocacy, and rural market penetration (Hossain 1988). These costly services that MFIs offer correspond with the mission to help the financially excluded client become a financially literate and responsible client. Cutting down on these costs could increase client default or decrease depth of outreach. In a study of 190 MFIs in Kenya, Muriuki et.

al (2015) finds that when MFIs undergo commercialization they enact stricter screening procedures such as raising minimum capital requirements. While, this increases the efficiency of MFIs, this creates an entry barrier that prevents potential clients from entering the microfinance institution. Lastly, skeptics of commercialization find that capital investment is a tool of the business market that has inherent risk and little legal protection (Yunus 2007; Sinclair 2012).

Previous research suggests that these concerns are warranted. Indeed, studies have found that commercial MFIs have decrease measures of depth of outreach (Paxton 2011, Chishty et al. 2011, and Kar 2011). Using data from 435 MFIs, Hermes et al. (2011) find a trade-off between profitability and depth of outreach. In "The Promise and Perils of Microfinance," Woller (2002) finds that many MFIs are not reaching optimal depth of outreach suggesting that the poor and the very poor are not the preferable market for profit-seeking MFIs. Additionally, Cull et al. (2007) analyze data 124 MFIs and finds a trade-off between profitability and outreach to the poorest clients. Finally, after comparing previous literature, Montgomery and Weiss find that the barriers to reach the "core poor" include high interest rates, social stigma, and exclusion due to perceived risk (2005, 26). Furthermore, Olivares-Polanco (2005) studied the data of 28 MFIs in Latin America finding a trade-off between financial sustainability and depth of outreach. As demonstrated in Graph 2, with this trade-off discovered by previous researchers, increasing pressure on MFIs to perform financially could prove detrimental to reaching poor clients.

Moreover, some policy-makers have suggested that MFI outreach should be reserved for the less poor. In an interview with a staff member of the United Nations Development Fund, the speaker asserted that some people are just "unbankable" (Roy 2010, 54). In 2004, Charitonenko et al. wrote that MFIs should exclude the "hardcore poor" (27). Instead, they advocate for expanding services, products, and clients. In this light, it is possible to see that commercialization may result in decreasing measures for depth of outreach.



Graph 2: Trade-off Financial Sustainability against Depth of Outreach

Balancing the Scales

Scholars and policy-makers have presented best-practices for a MFI to balance its two objectives. Fehr and Hishigsuren (2006) present The Life Cycle Theory arguing that MFIs should transition from grant and donation dependence to commercialization over time. Kapper (2007) breaks down this cycle into three phases. The first stage is the startup phase when the MFI depends on grants and donations from government or private donors. The MFI receiving this support is obliged to follow certain financial and social perimeters set by the donors. The second stage is restructuring when the MFI, following a business plan, seeks loans and investments while also expanding outreach. The last stage is full commercialization also called consolidation and integration. This is when the MFI legalizes as a bank and becomes available for a variety of capital investments including access to client savings. At this stage the MFI should no longer include donations and grants as part of its financial structure. This best-practice theory describes an evolution from donations to a purely commercial financial structure. If done thoughtfully client outreach is not necessarily negatively affected.

Other scholars advocate for the use of donations for specific, short-term goals coined as “smart.” De Aghion & Murdoch (2005) advocate for “smart subsidies” interventions that reduce economic inefficiencies and maximized social benefits. Their interventions include “subsidizing the program not the client, strategic short-term subsidization of the very poor client, and strategic subsidization over the long term” (De Aghion & Murdoch 2005, 21). Following up this idea and countering the “crowd out” theorists, De Aghion Murdoch (2005, 26) finds that MFIs may be able to “crowd in,” or attract, commercial financing options by using “smart” financing options. Targeted donations and grants that are well-managed and demonstrate the intended results can result in private investment. Different than the Life Cycle Theory, this theory does not see a MFI on a time-line that eventually dismisses all donor support, but rather an institution that benefits from intermittent donor support. This theory finds that the scales equalize after short-term injections of targeted donations.

MFI governance has also been found to play a large role in balancing objectives. MFI governance can be categorized into two aspects: MFI management and MFI stakeholders. MFI management is the decision-making body that responds to the interests of stakeholders, employees, and clients. Stakeholders are investors that are often represented on the board of directors. Sometimes the responsibilities and individuals of MFI management and stakeholders overlap and sometimes they are separated. None the less, both governance bodies are critical to monitoring social and financial objectives (Kyereboah-Coleman et. al 2007; Moori and Mersland 2010). As microfinance commercializes, or becomes “more complex,” the role of MFI governance becomes increasingly important (McKee 2012, Athmer and Vletter 2006, CGAP 2017). This is because the governance structures is made up of the individuals who will ultimately decide to take steps towards commercialization and will be responsible to ensure that financial and social objectives remain balanced. MFI governance is responsible for implementing policies that strive to fulfill the objectives of the MFI. Both MFI management and stakeholders hold the power to determine the importance of MFI objectives and may even prioritize one objective over the other (McKee 2012; Athmer and Vletter 2006). Mukwanason (2016) finds that MFI governance determines the social role of the MFI. In fact, CGAP (2017) explains one of the top “hot-button” issues within MFI management regards decisions on product design and distribution that has significant impacts on client outreach.

Studies have confirmed that stakeholders influence decisions on outreach both negatively and positively (Mersland et. al 2009; Mori and Merskand 2010). In a study of 25 interviews, Cumbi (2011) found that five MFIs that were not financially sustainable were purposefully choosing to prioritize social objectives over financial objectives. In a study of 293 cases across four surveys on MFIs in European nations, Hartarksha (2005) found that the make-up of the MFI’s board of directors significantly impacts MFI’s outreach. As the number of donor representatives increased, depth of outreach increased and sustainability decreased. On the other hand, as the number of clients on the board of directors increased depth of outreach decreased and financial sustainability increased. He concluded that the “microfinance board is very important” to outreach (14). In 2012, collecting data from five main MFI rating agencies, Hartarska and Mersland expanded upon these results finding that when MFI board of directors consists of 9 people, depth of outreach increases. On the contrary, when an MFI has larger number of insiders and the CEO chairs the board, depth of outreach decreases. While the details of each study are not extremely pertinent to this research, these studies demonstrate that MFI governance has a significant impact on MFI's fulfillment of outreach and financial objectives. MFI governance been determined to be so important that CGAP (2009) suggests that aid is distributed to only MFIs with well-designed management structures. Prompting the use of the term "social governance" the decisions that emphasize financial sustainability and client outreach and the policies implemented to achieve such mission lay in the hands of MFI management and stakeholders (CGAP 2014).

Finally, a best-practice approach for microfinance distribution is a process known as contextualization. Stemming from the conclusion that microfinance is not distributed in a bubble, the environmental, social, cultural, historical and legal context of the location of the MFI is essential to developing a successful microfinance program. Data from 2278 observations from 373 MFIs worldwide, Ahlin et. al (2009) find that macro-economic factors such as country GDP, value of foreign direct investment, and country institutions significantly influence the social and financial impacts of MFIs. Therefore, the policies and mechanisms used to accomplish the same objective might look different in different locations. Or perhaps, a policy that functioned well in one country might not function as well in a country with a different social, political, cultural history. Lerpold (2012) studies the historical and societal differences between microfinance in India and South Africa concluding that microfinance policies should be adjusted to the cultural, historical, and socioeconomic context in to which they have been placed.

Due to these forces, "balancing the scale" might look different in Mozambique than in other locations. On the one side of the scale is financial sustainability accomplished through the means of commercialization. Founded as a socialist nation, Mozambique has a relatively short history of capitalism and has a rather robust history of donor aid. Although Mozambique has experienced steady GDP growth over the years, financial sustainability does not have the foundation to easily flourish. Perhaps financial sustainability is harder to accomplish or is perceived as less important than in other nations (Epstein and Yuthus, 2011). On the other side of the scale is outreach which includes scope, quality, depth, and breadth. Scope of outreach, or the diversity of products offered to the microfinance client can be very important to the mission of microfinance. As clients become exposed to options such as savings, micro-insurance, and mobile banking, their livelihoods increase. In addition, quality of outreach, or the ability to provide reasonably priced microfinance services can also be considered a critical dimension of microfinance. Yet, in a country where most of its citizens are completely excluded from the formal banking system due to high operation costs, perhaps scale and quality of outreach are not as important as other dimensions of outreach. Perhaps breadth of outreach, or the ability to increase the number of people included in the banking system is the most critical role of microfinance in Mozambique. Furthermore, as one of the poorest countries in the world, depth of outreach, or the ability to reach poor people, may be an equally critical dimension of outreach to strive for in Mozambique.

Taking into consideration the context of Mozambique is crucial to understand the impacts of commercialization on outreach. Contextualization reminds these researchers to consider the historical and societal background of Mozambique when attempting to understand the impacts of commercialization on outreach in Mozambique. Putting the microfinance industry and the trend of commercialization into the context of Mozambique suggests that the objectives of Mozambican MFIs may be different than MFIs from different countries. Due to the social and political history of Mozambique, aspects of financial sustainability and outreach have greater or lesser importance changing the way that a Mozambican MFI will have to balance the scale.

Mozambique Demographics

Mozambique is 801,590 square kilometers sitting on the Southeast coast of Africa bordering the Indian Ocean and the Mozambique Chanel (Nations Encyclopedia 2015). It borders South Africa and Swaziland to the south, Zimbabwe to the west, and Tanzania, Zambia, and Malawi to the north. Approximately 25.7 million people live in Mozambique with more than double the concentration of people living in rural than in urban areas (Instituto Nacional De Estatistica 2015.) Mozambique is a relatively new country, winning the war for independence from Portugal in 1975. Following a short period of peace began a 15-year civil war that lasted until 1992 between the ruling party, FRELIMO, and an insurgent group, RENAMO, leaving a bruised economy and poor infrastructure.

Agriculture remains the dominant industry in Mozambique employing 75% of the workforce (MF Transparency 2012). The economy of Mozambique has been growing steadily. Gross Domestic Production (GDP) has remained strong around 7.5% since 2001 indicating a promising economic future (United Nations 2015; Athmer 2004). Among leading exports are sugar, coconut, and precious metals (United Nations 2015).

Despite growth, Mozambique remains a low-income country. According to the World Bank, in 2014, Gross National Income (GNI) per capita was $630 a year. Mozambique is one of the poorest nations in the globe. 60.7% of the population was living on below $1.25 per day in 2009 (World Bank 2015). Ranking 181 out of 188 countries on the Human Development Index, Mozambique is one of the world’s poorest economies (UNDP 2016).

In addition, economic inequality has been increasing. The 2012 Gini-coeffient for household income was 45.6 compared to 42 in 2003 (MF Transparency 2012; Athmer 2004). In 2012, the wealthiest households accounted for 37% of income while the poorest households accounted for only 10% of income (MF Transparency 2012). Furthermore, a great deal of the wealth is being concentrated in urban areas. The GDP per capita in Maputo was six times larger than the average national income in 2000 (Athmer 2004).

History of MFIs in Mozambique

In the late 1980s, international actors brought microfinance services to Mozambique. In 1989, a World Bank program created the Urban Enterprise Credit Fund and established the first of many microfinance programs. This program offered small loans to urban shopkeepers, fishermen, and carpenters (Athmer and Vletter 2006; Cumbi 2011).

Since then the Mozambican government has partnered with several international NGOs and foreign governments in ushering in the era of microfinance. In 1992, in coordination with the Mozambique Office of Employment Promotion (GPE) the German government created a training and credit program to help displaced workers. The GTZ-GPE program would eventually become Socremo, one of Mozambique's largest MFIs (Athmer and Vletter 2006; Cumbi 2011).

In 1997, the Mozambican government announced an objective to expand microfinance services to reach 100,000 clients by 2005. To accomplish this, several programs have been implemented to support the microfinance sector. The Canadian International Development Agency (CIDA) financed the Mozambique Microfinance Facility in 2000 with the objective to provide training to MFIs and assist with the development of MFI regulations. The United Nations Development Program (UNDP), the Asian Development Bank (ADB) and Australian Agency for International Development (AusAID) funded the Microstart Mozambique program in 2001 to increase the outreach to rural clients. Another microfinance support program, The Upstream Project, funded by UNDP, AusAid, and AMINA supports MFIs that want to increase "institutional capacity" (Athmer 2004). In 1995, the Swiss government funded a community development initiative in partnership with the Banco International de Mozambique. This program would become Tchuma, which was one of Mozambique's largest MFIs until it shut down microfinance operations in 2014 (Cumbi 2011).

Legal Environment

The Bank of Mozambique (BoM) is the regulatory actor of the microfinance industry in Mozambique. As explained on their website, the objective of BoM is "the provision of financial services primarily in small and medium-sized operations" (BoM 2005). By setting policies, this department of the government regulates both commercial banks and MFIs.

Decree 57/2004 10 of December sets the legal framework for microfinance regulation in Mozambique as demonstrated in Table 1. The decree separates MFIs into categories of microfinance operators depending on the financial structure and practices of the MFI. The classification determines the degree of monitoring and supervision required by BoM.

The first set requires prudential supervision and within it contains Microbanks and Credit Cooperatives. Prudential supervision includes limiting risk, restrictions on solvency ratio, and other protections. Microbanks are further divided into four categories. These four types of microbanks vary in the types of financial activities they are allowed to perform and the amount of capital required. As a general rule, the more deposits a microbank collects, the higher the capital requirement. Conversely, the less perceived risk of the financial behavior, the less capital that is required. The BoM reports nine microfinance banks in Mozambique. Credit Cooperatives also fall under prudential supervision but differing in the way that credit is only dispersed among members. There are 8 microfinance operators under this category in Mozambique.

The other set of microfinance operators is subjected to a different set of regulations by the BoM called monitoring. These organizations must only register with BoM and are required to report certain statistics to the BoM. Organizers of Savings and Loans is a members-only group that has a cap on deposits. The BoM reports four of these microfinance operators in Mozambique. Wildly popular is the category called Operator of Microfinance. This type of microfinance operator has the lowest capital requirement of 75.000.000,00 meticais ($1,250.00) but taking deposits is prohibited. BoM reports 426 operators of microcredit in Mozambique. Next, there is a category for operators that act as intermediaries for credit organizations with the ability to collect savings. BoM does not report any of these in Mozambique. Finally, there are a few organizations that fall outside of these categories but are still promoting microfinance in Mozambique. GAPI, an investment society is a type of financial institution that defines the legal perimeters set out for MFIs.

Not accounted for below are two commercial banks who provide microfinance services. Out of the 19 commercial banks in Mozambique, Socremo and Opportunity Bank are MFIs that have registered as commercial banks and they are also governed by regulations set by the BoM.

			Minimum Capital (MT)	Minimum Capital (60 MT = 1 U.S. Dollar)	Accept Credit	Accept Deposits	Member-ship required	Active MFIs in Moz
Subject to Prudential Supervision	Microbanks	Caixa Geral de Poupança e crédito	5,000,000,000	$83,333,333	Yes	Yes	No	9
		Caixa Financeira Rural	1,200,000,000	$20,000,000	Yes	Yes	No	
		Caixa Económica	2,400,000,000	$40,000,000	Yes	Yes	No	
		Caixa de Poupança Postal	1,800,000,000	$30,000,000	No	Yes	No	
	Cooperativas de Crédito		200,000,000	$3,333,333	Yes	No	Yes	8
Subject to Monitoring	Organizações de poupança e empréstimo		150,000,000	$2,500,000	Yes	No	Yes	4

	Operadores de Microcrédito		75,000,000	$1,250,000	Yes	No	No	426
	Intermediários de Captação de Poupança		Exempt	Exempt	No	Yes	No	NA

Table 1: Legal Categories of MFIs in Moz (Adapted from BoM 2017)

Research Question

Muriuki et. al (2015), found that the commercialization of 39 Kenyan MFIs decreased depth outreach resulting in mission drift. Yet, previous research has neglected to consider all the dimensions of outreach including breadth, depth, scope, and quality. Building off previous research, Mozambique is the ideal location to study commercialization trends. With its low rates of banking penetration and high rates of poverty, it is the ideal beneficiary for microfinance services. Furthermore, as donations and grants have become less popular, the shift towards commercialization of the MFI industry has already begun. Mozambique provides a rich example for the research question: Does commercialization of MFIs in Mozambique have a negative impact on depth, breadth, scope and quality of outreach?

Methods

Reliable aggregate data regarding the financial structures of MFIs in Mozambique was difficult to acquire. Therefore, a survey was used to gather information from experts in the microfinance field. Among the experts interviewed were program managers, executive directors, board members, financial managers, and CEOs of MFIs in Mozambique. The survey gathers information to assess the relationship between commercialization and the depth, breadth, scope and quality of outreach in Mozambique from experts' opinions. Twenty-four people were interviewed over the course of this study. Six MFIs (13 interviews), six Policy-Makers (8 interviews), and one MFI Liaison (3 interviews). The complete list of organizations is listed below in Table 2. An analysis of the descriptive statistics of the survey results was conducted to understand the relationship between commercialization and outreach. Interview participants were identified using the websites of organizations participating in microfinance initiatives. On several occasions, snowball sampling was used to gather contact information for potential new participants. Interview participants were emailed or called by the co-principle investigator and the intention of the interview was explained. Interviews were conducted within a week at a location decided upon by the interviewee. First, the co-principle reiterated the intentions of the study and the interviewee consented to be interviewed and recorded. Next, the interviewee responded to a series of interview questions about their organization. Lastly, the interviewee responded to a survey designed to reflect perceptions of commercialization on microfinance. Interviews lasted between one and one and a half hours. On two occasions, the interview was completed on a following day.

	MFIs	# of interviewees		Policy Makers	# of interviewees		Liaison	# of interviewees
	Kulima	2		USAID	2		iDE Global	3
	Tchuma	1		DFID	1			
	Caixa Comunitario de Microfiancias	3		World Bank	1			
	Opportunity Bank/My Bucks	2		AMOMIF	2			
	Socremo	2		FARE	1			
	Hluvuku	1		IFAD	1			
	Gapi	2						

	Total	13			8			3

Table 2. Interview Participants

Description of Survey

The survey is made up of nine statements and each has the option of five responses: Strongly Disagree (=1), Disagree (=2), Neutral (=3), Agree (=4), and Strongly Agree (=5). The first four questions of the survey are designed to understand whether the experts interviewed agree that all dimensions of outreach are important to the mission of MFIs. These questions examine the validity of previous research claims that these dimensions of outreach are critical aspects of the microfinance mission. Responses above 3 confirm their importance while responses below 3 negate their importance. Confirming their importance would demonstrate that MFIs and researchers should be concerned with the impact of commercialization while negating their importance would demonstrate the contrary. Question one, “Promoting the expansion of financial services to new clients is essential to accomplishing the microfinance mission" considers breath of outreach. Question two, “Promoting the expansion of financial services to reach people who fall below the poverty line is essential to accomplishing the microfinance mission" considers depth of outreach. Question three, “Promoting various products and services (micro-insurance, mobile banking, savings, ect.) is essential to accomplishing the microfinance mission" considers scope of outreach. Question four, “Promoting affordable access to credit is essential to accomplishing the microfinance mission" considers quality of outreach. In addition to verifying that these dimensions of outreach are essential, these questions prompt experts to assign a level of importance to each dimension of outreach. By comparing the mean of one dimension to another, this research reveals a ranking of the dimensions of outreach from most important to least important per experts' opinions.

Questions five, six, and seven ask experts to evaluate commercialization and outreach in the microfinance industry in Mozambique. Question five states, “MFIs that transition to commercial banks will increase minimum capital requirements." This question asks experts to assess the impact of commercialization on depth of outreach. It asks experts to consider MFIs that are undergoing commercialization and whether these MFIs will create a barrier to entry, as previous research has found that raising minimum capital requirements creates a barrier for poorer clientele. Responses higher than 3 suggest that experts find that commercialization has a negative impact on depth of outreach. Responses lower than 3 suggest that commercialization has a neutral or non-negative impact on depth of outreach. Question six states, “Your experience working with microfinance has demonstrated that some people are too poor to lend to”. This question speaks to the experts’ view on depth of outreach, assessing if experts believe there is a limit to depth of outreach. Responses higher than 3 suggest that experts find that there is a limit to depth of outreach while responses lower than 3 suggest that experts find that reaching the poorest of the poor is a part of the microfinance mission. Although slightly out of the scope of this study, this question prompts experts and researchers to better understand depth as a dimension of outreach. Question seven states, “Commercialization, or the emphasis on financial sustainability has had a negative impact on client outreach in Mozambique,” Unlike questions five and six that specify depth of outreach, this question asks the experts to confirm or deny if commercialization is negatively impacting outreach considering all dimensions: depth, breadth, scope, and quality of outreach. This question is the key to this research because it asks experts to consider the big picture. Responses higher than 3 would show that commercialization is bad for outreach objectives. It would confirm theories that emphasizing financial goals comes at the expense social goals. Responses under 3 would suggest that experts find that commercialization does not have significant negative consequences. In fact, this result would prompt further research regarding the benefits of commercialization. Furthermore, it will be telling to compare the results of this question to question five. Whether experts find that commercialization has a negative impact on depth of outreach is relevant to whether experts find that commercialization has a negative impact on outreach in general. If they are at a consensus then the impacts of commercialization are clear, whether negative or positive. If the results of differ then these findings would suggest that experts view a different relationship between commercialization and outreach when considering all dimensions of outreach.

Questions eight and nine are intended to understand whether commercialization is happening in Mozambique. Finding that commercialization is happening would confirm that MFIs and MFI policy-makers should be immediately concerned with the impacts of commercialization. However, if experts agree that commercialization is not taking place in Mozambique then this research is not as pertinent and further research should examine the potential growth commercialization in Mozambique. Question eight states, “MFIs in Mozambique are striving to be financially sustainable (not depend on donations or grants)” and it asks the expert to agree or disagree on whether MFIs are taking such actions that would move them towards the path of financial sustainability, an act characteristic of commercialization. Question nine states, “MFIs in Mozambique are using loans and investment mechanisms as part of their financial structure.” This question asks experts to agree or disagree whether MFIs are using tools of commercialization as part of their financial structure.

MFIs, MFI Policy-Makers, and MFI Liaisons Interviewed

Microfinance Institutions (MFIs)

The following information was adapted from 24 interviews with MFIs, MFI policy-makers, and MFI Liaisons. The scope of this research was limited to the number of interview participants that the researcher was able to contact in the span of 1 month. None-the-less, an adequate number of MFIs and policy-makers were interviewed for this study.

Kulima is a NGO created in the 1980s to help female refugees after the war. Today, the organization works in six areas including nutrition, rural finance, environment, human rights, health education, and emergency relief. In microfinance, Kulima serves over one thousand clients by working with associations. Kulima pairs with savings associations and disperses the loan in bulk to the association. The association is responsible for individual dispersion and payment collection. This strategy significantly reduces costs to the MFI. Kulima was a recipient of the FARE program funds and they opened microbanks, two in Cabo Delgado and one in Sofala with these funds. Kulima is an MFI that is majority funded by donations and grants winning proposals at both a national and international level. Loan recipients include small farmers, entrepreneurs, and other small industries. Kulima emphases depth of outreach and accomplishing the social mission to help those in need.

Banco Tchuma was founded in 1999 based in Maputo, Mozambique. They provided group and individual loans to small and medium microenterprises. They also offered consumer loans and ran savings groups across the southern half of the country. In 2004 they reported 5,964 active clients and an active portfolio of 1,361,886 dollars. In a 2006 study, Tchuma reported a poverty-focus mission emphasizing depth of outreach. Higher than other MFIs at the time, 13.6% of Tchuma’s clients were under the poverty line (Athmer and Vletter, 2006). However, in 2014 the management and stakeholders of Tchuma decided to sell the operation and it was renamed Banco

Mais. Although Banco Mais is still functioning in Mozambique, it no longer offers microfinance services.

Caixa Comunitario de Microfiancias (CCOM) is an organization of loans and savings operators. The main office is located in Maputo city serving as the umbrella organization that manages eight operators of savings and loans (Operadores Poupança e Emprestimo or OPE) and credit across the country including Gaza, Cabo-Delgado, and Maputo. Each of the OPEs are made up of associations that have their own elected leadership structure and paying members. OPEs across the country share the same first half of the name "caixa comunitario" but the second half of the name will be the association that is leading that OPE. Through the associations they offer group and individual loans for micro- and small entrepreneurs. The total number of active clients and portfolio is unavailable, but they reported over 20,000 saving clients in 2017. They have received support from United Nations Development Project, ACDI-VOCA, and FARE and accepted a formal loan from Echobank.

Opportunity Bank is just one of twenty-two organizations that are part of a global NGO. Opportunity International was founded in 1971 with headquarters in Chicago, Illinois. Opportunity Bank Mozambique was founded in 2005 to "help people work their way out of poverty, transform their lives and strengthen their families and communities "(My Bucks 2016). They offer group loans, individual loans, agricultural loans, and savings. The data for outstanding loan portfolio and number of active borrowers is not available. Opportunity Bank is well-known for their mobile banks which serve clients who have limited access to fixed banking services. In 2016, Opportunity Bank was sold to FinTech and MyBucks. MyBucks is a company of FinTech based in Luxembourg that strives to increase financial inclusion using new technology. MyBucks is a public corporation listed on the Frankfurt Stock Exchange valued at 150 million euro. Although the ownership has changed, in a press release statement MyBucks declared that Opportunity Bank will continue to serve and expand microfinance operations and that clients will benefit from an improved technology platform.

Socremo began its operations in 1999 and became a commercial bank in 2003 as part of its restructuring mission. Today, Socremo has a loan portfolio of 13.20 million dollars and is serving 3,424 clients. They are one of the most visually present MFIs in Mozambique and have 13 branches across Maputo, Gaza, Inhambane, Sofala, Manica and Tete provinces. Socremo provides individual loans to micro, small, and medium enterprises.

Hluvuku- Adsema Fundo de Credito Male yeru was established in 2001 as an NGO working primarily in Maputo province. In 2016 they reported 863,000 active clients and an active loan portfolio of 2.66 million dollars. In addition to offering loans for micro, small, and medium entrepreneurs, Hluvuku is well-known for being one of the few MFIs in Mozambique that offer consumption loans to non-salaried individuals. In 2016 they entered a partnership with KIVA, an international NGO, to help their clients access credit.

Gapi is an investment society created in 1991 that works in the areas of food security, financial inclusion, and the promotion of youth and gender equality. Gapi supports microfinance in various ways. They serve clients directly through their rural branch network. Gapi is in the process of expanding this network with the goal to put a General Box of Credit and Savings (Caixa General de Popanca e Credito) in every province. In addition to serving clients directly, Gapi provides capacity building, credit, and technical assistance to MFIs in Mozambique. Gapi has 15 branches in every province of the country where they maintain a staff that offers technical assistance and assists in financial literacy programs. They support various community-based savings organizations and MFIs with advisory services and financial services such as loans, refinancing, and guarantee funds. Additionally, they are investors in Banco Terra, Socremo, and in private companies. Gapi is unique because its ownership structure is neither exclusively private nor public. The government of Mozambique, the Red Cross, Samora Machel fund, and Gapi employees share ownership in the organization with the majority being privately owned.

MFI Policy-Makers

The Agency for International Development (USAID) is the U.S. government aid agency that has supported microfinance in Mozambique through various programs. They work with the Mozambican government and corporations on three developmental chapters, health, governance, and economic development. Most recently USAID introduced SPEED+, Supporting the Policy Environment for Economic Development, a program that encourages business growth and policy reforms. The Department for International Development (DFID**)** is the governmental department of the United Kingdom that is responsible for distributing aid. Together, USAID and DFID guarantee microfinance loans by 50% in an agreement with Socremo and Opportunity Bank. In the case of a client default these agencies assume half of the risk encouraging microfinance lending and reducing the client need for security.

The World Bank is an international finance institution that has been assisting Mozambique with economic development initiatives since the 1990s. The Country Partnership Framework of years 2017-2021 aims to help Mozambique in the areas of employment promotion, improving productivity, and increasing private competitiveness.

Associação Mocambicana de Operadores de Microfinanças (AMOMIF) is a MFI membership organization created by the Bank of Mozambique (BoM) that assists MFIs in Mozambique. The mission of AMOMIF is to help promote the expansion of microfinance services by supporting MFI members through technical support and serving as a liaison between the BoM and MFIs in Mozambique.

African Development Bank Group (AfDB) is a collection of regional members who work together to accomplish economic growth. Since its first project in 1977, the AfDB has supported a variety of projects including agriculture, employment generation, and communication industries. The International Funds for Agricultural Development (IFAD) is an agency of the United Nations and strives to respond to malnutrition by financing agricultural projects. They have worked in Mozambique since 1983 on a variety of projects including setting up credit groups, funding fishing and agricultural projects, and creating linkages between growers and buyers. In partnership with IFAD and AfDB, the Government of Mozambique have rolled out microfinance initiatives sponsoring a program called FARE which has become a huge asset to the microfinance industry in Mozambique. In 1992 and then renewed in 2003, The Economy Rehabilitation Support Fund or, Fundo de Apoio à Reabilitação da Economia, (FARE) funds microfinance projects aimed at improving the rural economy by encouraging the creation of new banking branches in the countryside (MF Transparency 2012). Specifically, FARE financed 50% of the construction costs for new MFI offices in underserved areas and then offered credit opportunities to these MFIs. While not a MFI itself, FARE distributed subsidized loans to 149 projects and managed a portfolio of funds PARF (Programa de Apoio as Financas Rurais) of 34 million USD (MF, Transparency, 2011).

MFI Liaison

iDE Global is an NGO with headquarters in Denver, Colorado, USA. There are 11 branches of iDE located across the world including five in Africa. The objective of iDE is to connect small businesses with financing opportunities. iDE Mozambique is celebrated for its Farm Business

Associates (FBA) program which trains and supports FBAs and connects them with funding opportunities. In 2016, iDE Mozambique partnered with KIVA to provide support to FBAs. iDE Mozambique is financed by various international organizations including the Swedish Development Agency (SIDA), USAID projects, World Bank projects, and EXON Mobile. The SMART program (Strengthening the Missing Middle in Agriculture for Rapid Transformation) is financed by SIDA and has recently been added to iDE's capital structure. iDE offers loan assistance to FBAs that demonstrate that their business could benefit from capital invested in expansion. Once selected, the FBA works with an iDE employee to fill out the application and iDE serves as a liaison between KIVA and the client. Since 2016, KIVA has dispersed 54 loans to iDE clients with an active portfolio of 39,700 dollars. Currently they are only offering individual loans. However, iDE is considering expanding its client base by both moving upmarket to include semi-commercial and commercial clients and including loan clients that are not FBAs.

Findings

To determine the impact of commercialization on outreach, the respondents were asked to indicate the extent to which they agree with various statements. Where Strongly Disagree =1, Disagree =2, Neutral =3, Agree =4, and Strongly Agree =5.

As shown in Table 4, the respondents agree with a mean of 4.75 and a standard deviation of .5316 that promoting the expansion of financial services to new clients is essential to the microfinance mission. Respondents agree with mean of 4.71 and a standard deviation of .4643 that promoting the expansion of financial services to reach people who fall below the poverty line is essential to the microfinance mission. Respondents agree with a mean of 3.79 and a standard deviation of .7790 that promoting various products and services (micro-insurance, savings, ect.) is essential to the microfinance mission. Respondents agree with a mean of 4.17 and a standard deviation of .7020 that promoting affordable access to credit is essential to accomplishing the microfinance mission. These findings confirm that breadth, depth, scope, and quality are all essential dimensions of outreach that are encompassed within the microfinance mission. The results find that breadth of outreach is most essential to the microfinance mission followed by depth, quality, and scope of outreach.

Taking into consideration the context of Mozambique helps explain some of these findings. Respondents identified breadth of outreach as the most essential dimension of outreach. Applying the contextualization theory, it is possible that the economic situation of Mozambique explains this phenomenon. Mozambique is unlike other microfinance markets because it is one of the poorest countries in the world and it has incredibly low financial inclusion rates. These findings suggest that MFIs and MFI policy-makers emphasize the need to expand breadth over the other measures for outreach perhaps because there are so many unserved people with the poor being far below the poverty line.

Respondents agree with a mean of 4.00 and a standard deviation of 1.0215 that microfinance institutions that transition to commercial banks will increase minimum capital requirements. This finding confirms that commercialization creates barriers for clients to enter by raising minimum capital requirements confirming that commercialization decreases depth of outreach.

Respondents are neutral with a mean of 2.96 and a standard deviation of 1.5174 on whether their experience working with microfinance has demonstrated that some people are too poor to lend to. This response demonstrates depth of outreach is not a clear-cut mission of a microfinance organization. Although respondents strongly agree that the mission of microfinance includes depth of outreach, there is some disagreement about “too poor” clientele. A review of respondent’s answers to the survey displays that the responses vary significantly leading to the conclusion that MFIs and MFI policy-makers are not unified in their opinions regarding depth of outreach. This study suggests that further research and conversation should be conducted across MFIs and policy-makers to refine the mission of microfinance in Mozambique.

Respondents are also neutral with a mean of 3.38 and a standard deviation of 1.3126 on whether commercialization, or the emphasis on financial sustainability, has a negative impact on client outreach in Mozambique. This demonstrates that MFIs and policy-makers find that commercialization does not necessarily have a negative impact on outreach. Supporting the claim that outreach is multi-dimensional, when outreach was not clearly defined, the response was neutral.

Respondents agree with a mean of 4.33 and a standard deviation of 6.370 that microfinance organizations in Mozambique are striving to be financially sustainable (not depend on donations or grants). Yet, respondents are neutral with a mean of 3.21 and a standard deviation of .9771 on whether microfinance organizations in Mozambique are using loan and investment mechanisms as part of their financial structure. These responses suggest that although MFIs and MFI policy-makers want to see financial sustainability, there is neither agreement nor disagreement on whether MFIs are commercializing their financial structure.

Questions	**% of strongly disagree**	**% of disagree**	**% of neutral**	**% of agree**	**% of strongly agree**	**Mean**	**Standard Deviation**

1. Promoting the expansion of financial services to new clients is essential to the microfinance mission	0%	0%	4.7%	16.7 %	79.2%	4.75	0.5316
2. Promoting the expansion of financial services to reach people who fall below the poverty line is essential to the microfinance mission.	0%	0%	0%	29.2 %	70.8%	4.71	0.4643
3. Promoting various products and services (micro-insurance, savings, ect.) is essential to the microfinance mission.	0%	0%	41.6%	37.5 %	20.8%	3.79	0.7790
4. Promoting affordable access to credit is essential to the microfinance mission.	0%	0%	16.7%	54.2 %	33.3%	4.17	0.7020
5. Microfinance organizations that transition to commercial banks will increase minimum capital requirements.	0%	12.5%	12.5%	37.5 %	37.5%	4.00	1.0215
6. Your experience working with microfinance has demonstrated that some people are too poor to lend to.	25%	16.6%	16.6%	20.8 %	20.8%	2.96	1.5174
7. Commercialization, or the emphasis on financial sustainability, has a	8.3%	20.8%	20.8%	25%	25%	3.38	1.3126

negative impact on client outreach in Mozambique.							
8. Microfinance organizations in Mozambique are striving to be financially sustainable (not depend on donations or grants).	0%	0%	8.3%	50%	41.6%	4.33	0.6370
9. Microfinance organizations in Mozambique are using loan and investment mechanisms as part of their financial structure.	4.2%	20.8%	29.2%	41.6 %	0%	3.21	0.9771

Table 4: Impacts of Commercialization on Outreach

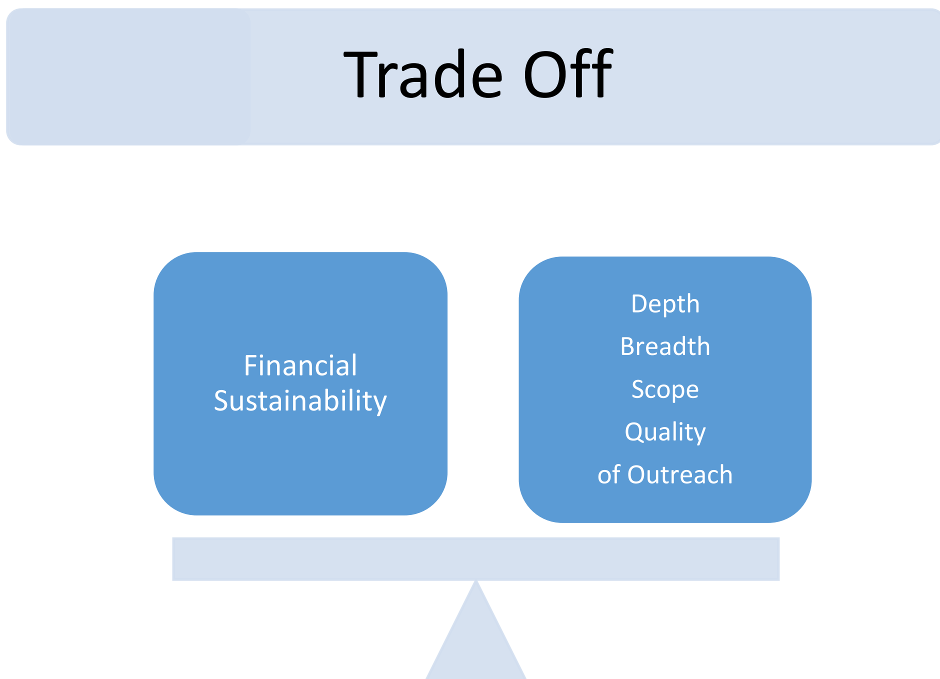
A cross-tabulation analysis, Table 5, was conducted to assess the relationship between questions five and eight. While question five addresses depth of outreach, question eight addresses the occurrence of commercialization. Exploring this relationship will help clarify if experts demonstrated consistency between related questions and it will speak to the importance of this research. The analysis explores the relationship between how experts responded to question five, “Microfinance organizations that transition to commercial banks will increase minimum capital requirements" and how experts responded to question eight, “Microfinance organizations in Mozambique are striving to be financially sustainable (not depend on donations or grants).” Of the 75% experts that agreed that commercialization has a negative impact on depth of outreach 75% of them also agreed that commercialization is taking place in Mozambique. This demonstrates a consistency in experts’ opinions between questions supporting the notion that experts who agree that commercialization has a negative impact on depth of outreach also agree that that commercialization is happening in Mozambique. This finding is important because it supports the relevancy of this research and points to the importance of conducting future research on the impacts of commercialization in Mozambique.

Question 5				
Question 8		Agree	Neither	Disagree
	Agree	75%	4.2%	12.5%
	Neither	0%	8.3%	0%
	Disagree	0%	0%	0%

Table 5: Depth of Outreach and the Occurrence of Commercialization

Policy Implications

Using Mozambique as a case-study, this research examines the impacts of commercialization on dimensions of outreach. It confirms previous claims that a trade-off exists between financial sustainability and depth of outreach demonstrated through a raise in minimum loan requirements. While previous research stresses the importance of depth of outreach, this study supports Schreiner (2002) and Copestake (2007) finding that other dimensions of outreach are essential to the microfinance mission and should be considered when studying the impacts of commercialization. This study finds that commercialization does not necessarily have a negative impact on general client outreach. In fact, this study corroborates previous research that commercialization has positive impacts on three of the four dimensions of outreach included in this study: breadth, scope, and quality. Referencing Graph 3, it is possible to see how an equilibrium of the MFI’s objectives can be reached. When all the aspects of outreach are balanced against the importance of financial sustainability, this research suggest that the scale balances. For policy-makers and MFIs in Mozambique, these findings suggest that commercialization can be used as a tool to increase breadth, scope, and quality of outreach but cautions against commercialization if the social mission of the MFI is predominately depth of outreach. Keeping in mind the social and economic context of the country in which microfinance is being implemented while employing best governance strategies, commercializing MFIs can find a balance between financial sustainability and promoting social good.



Graph 3: Trade-Off Financial Sustainability to All Dimensions of Outreach

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